GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2823
ANSWERED ON:17.12.2004
MICRO CREDIT
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Will the Minister of FINANCE be pleased to state:

(a) whether the Government proposes to introduce micro credit regulation system;

(b) if so, the salient features thereof;

(c) whether the Government is aware of the problems of thousands of poor women Self Help Groups due to high rate charged on their micro cred it;

(d) if so, the details thereof and the action taken by the Government for protecting them;

(e) whether private and multinational banks are also bound to implement the said system; and

(f) if not, the steps taken by the Government to bring under the said system ?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S .PALANIMANICKAM)

(a) and (by A High Powered Task Force on `Supportive policy and regulatory framework for micro finance` constituted by National Bank for Agriculture and Rural Development(NABARD) had recommended that Micro Finance Institutions(MFIs) purveying credit only, MFIs purveying credit ar-ri mobilizing savings from the cHen`.s/loanees (below certain limits) may be kept out of the regulatory framework and focus, instead, on self-regulation. Similar views have been expressed by the `Advisory Committee on Flow of Credit to Agriculture and Related Matters`(Vyas Committee) constituted by Reserve Bank of India. The Reserve Bank of India has, therefore, decided not to permit MFIs to accept public deposits unless they complied with extant reguls;:ory framework of RBI.

(c)and (d); The rates of interest charged on loans, to SHGs by banks are completely governed by RBI guidelines. The existing RBI guideline;- on interest rate regime for primary lending institutions like Regional Rural Banks

(RRB!i)- Co-operative Banks provide complete freedom to lending institutions to determine their own lending rates. However, the Commercial Banks cannot charge more than thsir prime lending rate on all loans upto Rs. 2.00 lakh as per existing RBI guidelines. Presently banks are charging interest rate in the range of 8.5% to 12% per annum on loans to SHGs which may be considered satisfactory keeping in view of their average cost of funds, transaction costs, operating margin and provision for Non-performing Assets.

(e) and (f): All Scheduled Commercial Banks are encouraged to participate in the SHG Bank Linkage Programme.